



U.S.-CHINA ECONOMIC AND SECURITY  
REVIEW COMMISSION

***Hearing on China's Impact on the U.S. Auto and Auto Parts Industries***  
**Opening Statement of**  
**Daniel Blumenthal**  
**Hearing Co-Chairman**

**July 17, 2006**  
**Dearborn, Michigan**

Welcome to our hearing on China's impact on the U.S. auto and auto parts industries.

America's auto industry holds a special place in manufacturing and in our economy. The production of cars and trucks employs metallurgists, computer scientists, skilled craftsmen, and engineers of all stripes. Today's cars are one of the biggest users of steel, textiles, rubber, and semiconductors. The average car uses 18 computers to monitor fuel flow, pollution control, ignition timing, airbag deployment, and braking systems. Cars may employ radar in collision avoidance systems and satellite technology to find their way. The process of designing and creating a car is one of the most technologically sophisticated endeavors in business today.

No wonder, then, that the survival of a healthy auto industry is a key to supporting many of the technical skills that have a crossover effect on our nation's security. We will be hearing from witnesses today who can draw that connection. They have first-hand knowledge of how the erosion of our auto and auto parts industry directly threatens America's defense industrial base as well as its economic and technological future.

Unfortunately, today's newspapers are filled with grim news about the industry. Layoffs, wage and benefit cuts, plant closings, dividend cuts and company consolidations are widespread and growing. The auto parts industry is undergoing some particularly hard times. Their principal customer base in the United States—the Big Three—has suffered from declining sales of finished vehicles and therefore, the quantity of their parts being ordered has also declined. Foreign-based transplant operations here, while doing better, have still not made up the slack. At the same time, China's export of auto parts is on the rise. The United States imported \$5.4 billion in parts from China in 2005, a 39 percent increase from the previous year. By contrast, U.S. parts shipments to China declined 2 percent in the same period to \$623 million in 2005. More than a dozen major U.S. auto parts suppliers filed for bankruptcy protection in 2005.

The Commission also invited the Big Three to testify today, but none took us up on our offer. Nor did the companies designate anyone to testify on their behalf. We regret we cannot consider their views in open session and provide their testimony and recommendations to Congress. But America's auto industry is caught in a bind. While the North American operations of Ford and General Motors lost money last year, their operations in China apparently made money for much the same reason that China's auto

industry is growing so fast:: subsidies from the central, provincial and local governments in the form of discounted land, tax abatements, below-market interest rate loans, loan forgiveness, and lax enforcement of environmental standards. Add to that the artificially undervalued Chinese currency, and you have a huge incentive for producing in China. Unfortunately, the same U.S.-based companies that have been attracted to use China as a manufacturing base now fear the loss of such subsidies if they should criticize Beijing.

We welcome our intrepid witnesses to today's hearing and thank you for your timely testimony. We appreciate hearing your thoughts about the challenges faced by the auto and auto parts industries as the result of competition with China and about the overall effect on our nation's defense-critical industrial base.

# #